

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS BRASILIA 002467

SIPDIS

NSC FOR CRONIN
TREASURY FOR OASIA - DAS LEE AND FPARODI
STATE PASS TO FED BOARD OF GOVERNORS FOR ROBITAILLE
USDOC FOR 4332/ITA/MAC/WH/OLAC/JANDERSEN/ADRISCOLL/MWAR D
USDOC FOR 3134/ITA/USCS/OIO/WH/RD/DDEVITO/DANDERSON/EOL SON
AID/W FOR LAC/SA

SENSITIVE

E.O. 12958: N/A

TAGS: [ECON](#) [PGOV](#) [EFIN](#)

SUBJECT: BRAZIL: FINANCE MINISTER PALOCCI REPORTEDLY UPSET
OVER INVESTIGATIVE SCRUTINY OF HIS BROTHER

REF: A) Brasilia 2242

11. (U) The September 16 "O Estado de Sao Paulo" reported that Finance Minister Antonio Palocci told two PT federal deputies that if his brother was called to testify before any of the congressional committees looking into influence peddling, Palocci would resign. The Minister's brother -- Adhemar Palocci -- serves as Director of Planning and Engineering for the state-owned utility Eletronorte. Apparently, congressional investigators believe that Adhemar may have information about possible irregularities in contracts involving Eletronorte and the firm InterBrazil. (InterBrazil was one of the companies contracted by the city of Ribeirao Preto to provide trash collection services; in late August allegations surfaced, Ref A, that one such firm -- Leao and Leao -- had paid kickbacks to the PT.)

12. (U) On September 14, Eletronorte issued a press release stating that the Eletronorte/InterBrazil contracts in question were signed two years prior to Adhemar joining the company's board and that Adhemar's job in no way involved administering these contracts. Antonio Palocci, who was Mayor of Ribeirao Preto from 1993 to 1997 and 2000 to 2002, reportedly said that he would be disposed to testify, in his brother's place, and explain everything; however, if his brother was called to testify, Palocci would have no choice but to resign. It appears that for now opposition forces have been stymied in attempting to get the "Postal system" investigative committee (a misnomer, as in reality its ambit is much broader) to depose Adhemar. However, according to the O Estado de Sao Paulo, opposition deputies will next try to get the "Bingo house" investigative committee to summon him sometime during the week of September 19.

13. (SBU) Comment. So far, this story has not received a great deal of attention as the sheer volume of other scandal-related developments (i.e., the impeachment of Congressman Roberto Jefferson, the expected removal of Chamber of Deputies President Cavalcanti, etc.) has dominated the news. Indeed, as was the case a week ago when the press reported that two properties that Palocci owned in Ribeirao Preto were grossly undervalued for tax purposes, the market has barely responded. As of late in the day September 16, the dollar/real exchange rate continued to hover around the relatively level of 2.3. However, should this story expand over the September 17-18 weekend, it may be difficult for Minister Palocci to effectively respond (in contrast to August when he immediately and persuasively rebutted allegations that he steered kickbacks to PT confers.) Upon contacting the Ministry of Finance for further details on this story, post learned that the Minister was due to leave the city for the weekend on a personal trip.

Chicola